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## PROFESSIONAL STANDARD 103

### ACTUARIAL REVIEW

March 2021

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## 1. INTRODUCTION

### 1.1. Application

- 1.1.1. This Professional Standard applies to Members performing an APRA actuarial review as requested under CPS 320. APRA may request an Entity to have a review performed of any matters specified by APRA. This review may be performed by the Appointed Actuary or another actuary (as specified by APRA).

This Professional Standard also applies to Members who support another Member in performing an APRA actuarial review under the Professional Standard, as relevant to their contribution to the Services.

- 1.1.2. A Member who performs an APRA actuarial review:
- a) must be an Eligible Actuary; and
  - b) must exercise his or her independent judgement and give impartial advice.

Members supporting the Member performing an APRA actuarial review under the Professional Standard are not required to be an Eligible Actuary.

- 1.1.3. All work performed under this Professional Standard, whether by the Member performing the APRA actuarial review or by a Member supporting the Member performing the APRA actuarial review, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.
- 1.1.4. An Appointed Actuary or other Member may undertake actuarial reviews other than those required under CPS 320. In these circumstances, the Appointed Actuary or other Member does not need to be an Eligible Actuary, however must take account of the general considerations in this Professional Standard. Work performed in these circumstances is designated as an Applicable Service and the Appointed Actuary's or other Member's attention is directed towards Practice Guideline 1 as relevant to the nature of the Services.
- 1.1.5. This Professional Standard was first released in response to APRA's reconsideration of the functions of the Appointed Actuary role and subsequent release of CPS 320 Actuarial and Related Matters dated 6 June 2018, which was effective 1 July 2019.
- 1.1.6. Members may be required to provide the Entity with written advice. In doing so, the Member must bear in mind that one of the principal objectives of the relevant Acts is to protect the interests of the owners and prospective owners of insurance policies in a

manner consistent with the continued development of a viable, competitive and innovative insurance industry.

- 1.1.7. An Appointed Actuary has legal obligations to report certain matters, information or opinions to APRA. These obligations are referred to as “whistle blowing”. The obligations, details about what must be reported, related powers and protections are provided in relevant sections of the Acts. An Appointed Actuary and Members supporting the Appointed Actuary must understand the obligations that apply to them in their circumstances. This may require the Appointed Actuary and/or Members to seek legal or other professional advice.

## **1.2. Previous Versions**

The previous version of this Professional Standard was issued in March 2020 and incorporated conformance changes to align with the Institute’s new Code (effective 31 March 2020). The initial version of this Professional Standard was issued in June 2019. Prior to June 2019, there was a related industry-specific standard. The external peer review of general insurance policy liabilities was previously governed by Professional Standard PS 315 last updated in December 2014.

## **1.3. About this Professional Standard**

- 1.3.1. This Professional Standard:

- (a) has been prepared in accordance with the Institute’s Policy for Developing Documents to Guide and Regulate Professional Practice;
- (b) must be applied in the context of the Code;
- (c) binds Members of the Institute when they perform work that the Standard covers; and
- (d) defines the Institute’s requirements for all work the Standard covers.

- 1.3.2. If a Member believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute’s Professional Standards Committee for an interpretation.

- 1.3.3. A Member may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If a Member finds that they cannot carry out their work in a way that fully complies with this Professional Standard then they must:

- (a) decline to carry out the work;
- (b) end their agreement to do so; or
- (c) perform the work to the fullest extent possible under this Professional Standard;

and qualify the work accordingly as set out in clause 1.3.4.

The approach adopted in such circumstances will require the exercise of the Member's professional judgement having regard to Materiality as appropriate. In this regard the Appointed Actuary is reminded of their obligations under the Code.

- 1.3.4. In the scenario described in clause 1.3.3 (c), the resulting work product must be clearly qualified, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations. All reasonable attempts must be made to comply with this Professional Standard to the fullest extent possible. A description of the areas where change would be needed to enable the creation of an unqualified work product must be disclosed along with a description of the reasons for issuing qualified work.
- 1.3.5. If a Member does not comply with this Professional Standard then that may constitute Misconduct under the Institute's Disciplinary Scheme, although proper account will be taken of provisions of clauses 1.3.3 and 1.3.4.
- 1.3.6. This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

#### **1.4. Other relevant documents**

- 1.4.1. This Professional Standard must be applied in the context of the relevant law, and relevant accounting, auditing standards and other regulatory standards.
- 1.4.2. A reference to legislation or a legislative provision in this Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.4.3. Apart from the Code, from legislation or from regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.4.4. If there is a conflict between this Professional Standard and any legislation, then the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

## 2. COMMENCEMENT DATE

This Professional Standard applies to any relevant advice or Report given to an Entity on or after 31 March 2021.

## 3. DEFINITIONS

3.1. In this Professional Standard:

**'Acts'** mean collectively the Life Act, the Insurance Act and the Health Act.

**'Actuarial Valuation Report (AVR)'** means a report prepared in accordance with CPS 320.

**'Applicable Services'** mean Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

**'Appointed Actuary'** means a Member holding an appointment by the Entity under section 93 of the Life Act, section 39 of the Insurance Act or section 106 of the Health Act.

**'APRA'** means the Australian Prudential Regulation Authority.

**'APRA Standards'** mean the Prudential Rules, Prudential Standards, Prudential Practice Guidelines and Reporting Standards issued by APRA from time to time in accordance with the Act.

**'Board'** means the Board of directors of an Entity.

**'Code'** means the Code of Conduct of the Institute.

**'CPS 320'** means APRA Prudential Standard CPS 320 Actuarial and Related Matters.

**'Disciplinary Scheme'** means the document of that name prepared by the Institute setting out the rules and procedures governing professional discipline of a Member, as amended by Council from time to time.

**'Eligible Actuary'** means:

(a) a Fellow or Accredited Member of the Institute; or

(b) a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

**'Entity'** means the legal entity registered under the Act as the general insurer, life insurer, friendly society, private health insurer or otherwise, as the context requires. Reference in the Professional Standard to advice to the Entity includes advice to the Board of the

Entity.

**'Material'** means relevant to the Entity's circumstances and either important or essential in the opinion of the Member (clause 4). For this purpose, 'Material' does not have the same meaning as in Australian accounting standards.

**'Policy Owner'** means the owner of an insurance policy as defined in the relevant Acts, and includes reference to a member of a benefit fund of a friendly society as the context requires.

**'Primary Actuary'** means the Member whose actuarial advice is being reviewed in terms of this Professional Standard.

**'Report'** means a report or written advice prepared by a Member under this Professional Standard.

**'Reviewing Actuary'** means the Member reviewing the Primary Actuary's actuarial advice in terms of this Professional Standard.

**'To disclose'** means to include information within a written communication, such as a Report where one is prepared.

**'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

- 3.2. A word that is derived from a defined word has a corresponding meaning.
- 3.3. Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

#### **4. MATERIALITY**

- 4.1. The Member must take Materiality into account when performing work under this Professional Standard. In determining whether something is Material, the Member must take into account the purpose of the work. Whether something is Material or not will always be a matter requiring the exercise of the Member's professional judgement.
- 4.2. If the Member has formed the opinion that a matter required to be considered under this Professional Standard is not Material to the Report in the circumstances, then:
  - (a) the Member must record in their working papers that the matter is not Material and provide reasons for forming that opinion, but does not have to further consider that matter; and
  - (b) if the matter is not relevant to the Entity's circumstances, the matter may be omitted from the applicable Report; or

- (c) if the matter is relevant to the Entity's circumstances, but is not Material because it is neither important nor essential in the Member's opinion, the Member must disclose in the Report that the matter is not Material and provide reasons for such opinion.

## 5. SCOPE

- 5.1. APRA may request an Entity to have a review performed of any matters specified by APRA.
- 5.2. The scope and nature of the review will vary depending on the specific matters to be reviewed. The Member must give consideration to the following if relevant:
  - (a) appropriateness, quality and reliability of key data inputs;
  - (b) reasonableness of assumptions in the context of historical experience, industry trends, future outlook and professional judgement;
  - (c) appropriateness of the methodology, including compliance with APRA requirements and Institute Professional Standards;
  - (d) reasonableness of the results, including an assessment of the extent to which key risks and uncertainties have been identified; and
  - (e) appropriateness of controls of the process and results.

## 6. REPORTING REQUIREMENTS

- 6.1. The level of detail included in the Report will depend on the matters specified in the scope of the actuarial review.
- 6.2. The Report produced must disclose the procedures performed by the Member, their assessment and conclusion relating to each of the matters specified by APRA.
- 6.3. A statement must be included that the Report has been prepared in accordance with this Professional Standard.
- 6.4. If the purpose of the actuarial review is to provide a conclusion on the reasonableness of a Primary Actuary's actuarial advice, then:
  - (a) There must be consideration of the investigations undertaken, as well as results obtained, by the Primary Actuary. Additionally, the Reviewing Actuary must consider whether relevant key risks and uncertainties have been identified by the Primary Actuary.
  - (b) The Reviewing Actuary must recognise that actuarial practice does vary and that the amount, and detail, of work undertaken by the Primary Actuary on any matter

will vary, depending upon the extent to which it is considered Material.

- (c) The scope of work undertaken by the Reviewing Actuary does not extend to re-performing the Primary Actuary's work, but the extent of scrutiny undertaken by the Reviewing Actuary must be sufficient to support the conclusion to be provided by the Reviewing Actuary.
- (d) The responsibility for the Primary Actuary's actuarial advice remains with the Primary Actuary. The Reviewing Actuary's advice does not provide a guarantee of the Primary Actuary's actuarial advice.
- (e) It is acknowledged that there can be differences in professional opinion between the Primary Actuary and the Reviewing Actuary. In such situations, there is an inherent need for communication between the Reviewing Actuary and the Primary Actuary. Recognising this, at the earliest opportunity, the Reviewing Actuary must discuss, where possible, any such issues arising with the Primary Actuary. In doing so, the Reviewing Actuary must be aware that they are reviewing the work that has been undertaken, rather than re-performing such work.
- (f) The Primary Actuary must provide the Reviewing Actuary with the report(s) and appendices containing the actuarial advice that may have been prepared, or equivalent information if reports have not been prepared. If this information does not provide enough information for the Reviewing Actuary to form an assessment, then the Primary Actuary must provide other items on file and/or relevant source data. All information must be provided electronically if available in that form.
- (g) The agreed scope of the actuarial review may place limitations on the access of the Reviewing Actuary to intellectual property of the Primary Actuary, such as proprietary actuarial models. Such limitations must not affect the ability of the Reviewing Actuary to assess the Primary Actuary's actuarial advice, but the Primary Actuary may choose an alternate approach to conveying these to the Reviewing Actuary rather than allowing full access.
- (h) To the extent that it lies within the power of the Primary Actuary, reasonable access must be provided for the Reviewing Actuary to the Primary Actuary, the personnel employed to support the Primary Actuary, staff and auditor of the Entity for which the Primary Actuary's actuarial advice was prepared, as well as any contractors or consultants involved. The purpose of giving this access is to help the Reviewing Actuary understand and form conclusions on information related to the Entity for whom the Primary Actuary's actuarial advice has been prepared.

## **END OF PROFESSIONAL STANDARD 103**